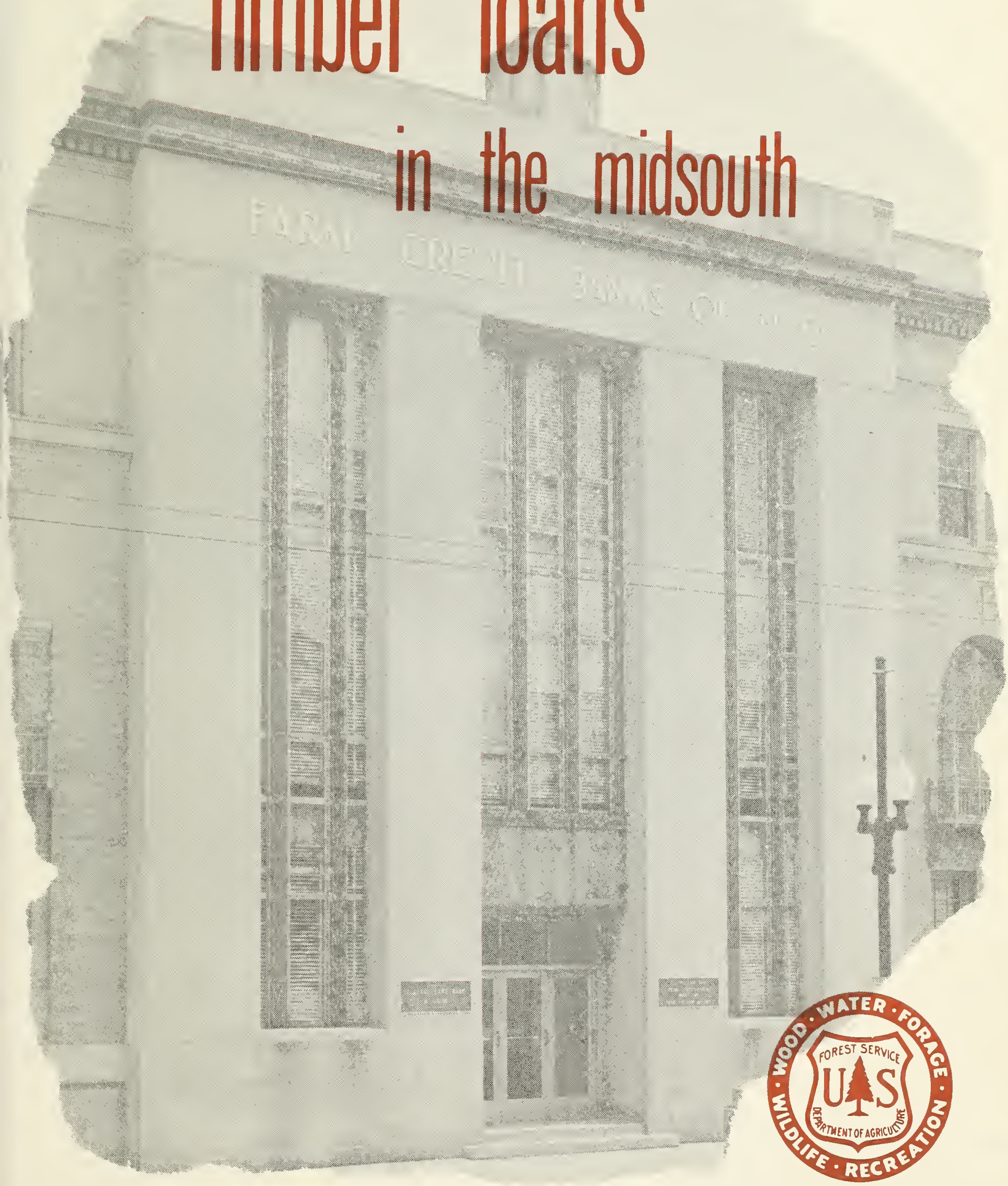
federal land bank timber loans in the midsouth



The Federal Land Bank of New Orleans provided the basic information and data for this paper. Carroll K. Cardwell, Assistant Chief Reviewing Appraiser, Farm Credit Administration, New Orleans District, furnished guidance in interpreting the data, and reviewed the manuscript.

federal land bank timber loans in the midsouth

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The availability of forest credit can be a stimulus to timber growing, for young stands often increase in value at rates that exceed loan costs.

Forest credit opportunities for southern landowners have improved markedly since the mid-1940's, for timber financing has developed more rapidly in the South than in other parts of the nation. Among the factors that have aroused the financial community's interest are increased forest product prices, scarcity of high-grade timber, new tax advantages for timber owners, rapid growth of valuable timber species, and industry's dependence on small woodlands as sources of raw material.

Because growth rates and timber markets are favorable, repayment of loans can usually be depended on. However, other factors have also influenced forest credit development in the South. Generally, planting and timber management costs are low. Earnings from timber are a more important component of farm income here than in other regions. The southern farm not having some woodland is a rarity, and on numerous holdings timber is virtually the only crop.

Currently there are three major sources of forest credit—i. e., loans in which timber is used as collateral—in the South: State and National banks, life insurance companies, and the Farm Credit System. Banks are authorized to accept timber as collateral under Public Law 285. This Act permits 2-year loans on managed forests and 10-year mortgages in which the principal is amortized at 10 percent per year. Such provisions are less favorable than those provided under the Farm Credit System. Insurance companies are generally not a source of credit for small-tract owners because their loan minimums are $25,000 or more. Thus the Farm Credit System is the chief source of small loans on timber land.

This paper briefly reviews development and operation of the Farm Credit System, with special attention to its facilities for making favorable loans to owners of small woodlands. Its long-term forest credit program, as administered by the Fifth Farm Credit District, is then described. Loan and borrower characteristics are discussed and the potentialities for stimulating improved forest management through land bank credit are indicated.

The Fifth Farm Credit District, served by the Federal Land Bank of New Orleans, is composed of Louisiana, Mississippi, and Alabama. These three States have 54 million acres of commercial forest land supporting 109 billion board feet of sawtimber and 31 billion cubic feet of growing stock *(1, 2, 3)*.[1]

THE FARM CREDIT SYSTEM

Shortly before World War I, widespread demand developed for a national rural credit system. As a result, the Federal Farm Loan Act was passed on July 17, 1916, creating twelve Federal Land

[1] Italic numbers in parentheses refer to Literature Cited, inside back cover.

Banks which in turn set up the numerous Federal Land Bank Associations. A basis for long-term credit to individual farmers was thus established. The Act provided for agricultural development capital, standard forms of investment based on farm mortgages, and equalization of interest rates on farm loans.

The Act also provided for supervision of the banks and their associations through the Federal Farm Loan Bureau of the U. S. Treasury Department. This bureau was superseded in 1933 by the Farm Credit Administration, an independent agency of the executive branch. The Farm Credit Administration has maintained its independent status except from 1939 to 1953, when it was part of the U. S. Department of Agriculture. It inspects the banks and associations for compliance with the Act and for adherence to rules and regulations issued thereunder.

Despite popular misconceptions, neither the land banks nor the associations are government owned. The capital stock of the twelve banks is owned by the associations, which are local cooperatives formerly called National Farm Loan Associations. The capital stock of the associations, in turn, is exclusively owned by the farmer-borrower members. Some of the misconceptions concerning the Federal Government's role arose when it supplied the initial capital for the banks—a total of 9 million dollars. This was repaid within a few years, but in the depression of the 1930's Congress assigned the banks the task of refinancing the nation's huge agricultural debt. To facilitate progress, government funds were placed in each of the twelve banks. In 1947 the last of the government capital was repaid in full, and the banks became completely member owned.

The Federal Farm Loan Act defines the functions of the land banks and limits their lending authority. Loans must be based on the normal agricultural value of the collateral offered as security. This "normal" concept was adopted in 1933 when credit based on the current market values of farms was inadequate. Consideration was thus given, and still is, to long-term averages of net returns and land values in particular areas. Expected returns from shifts in crop alternatives are also recognized.

The banks obtain loan funds by selling consolidated bonds that become the joint obligation of all twelve banks. These bonds are regarded in the market as prime paper, comparable to Government bonds and other high-grade securities. They are not Government bonds, however, nor is payment guaranteed by the Government.

The land banks of Columbia, South Carolina, and New Orleans, Louisiana, have taken active interest in developing a basis for using timber as collateral. In 1944 both made the first loans in which

timber as well as forest land was taken in security. Prior to that time, they had accepted woodland acreage but not timber, and had also required the inclusion of crop and pasture land as part of the collateral. After a slow start the two banks have built up a multimillion dollar timber-loan business. Since 1956 the New Orleans bank has been increasing such business at a much faster rate than has the Columbia bank. The latter, however, still has the largest number of loans, amount outstanding, and forest-acreage collateral.

Other banks and associations have also been established in the Farm Credit System, primarily to extend short-term credit. Twelve Federal Intermediate Credit Banks were created in 1923 and the system of Production Credit Associations in 1933. The latter, which are local organizations, extend short-term and intermediate credit to farmers and farming corporations for any agricultural purpose, including timber operations. The intermediate-term loans mature in 2 to 7 years. The Production Credit Associations obtain their funds by discounting loans with the twelve Federal Intermediate Credit Banks. These banks are located in the same cities as the twelve Federal Land Banks and are governed by the same boards of directors. They are also supervised by the Farm Credit Administration.

Thirteen Banks for Cooperatives—twelve district banks and the central bank in Washington, D. C.—were established in 1933 to provide a permanent source of credit for farmers' cooperative associations. The district banks are domiciled in the same cities, have the same boards of directors, and serve the same territories as the Federal Land Banks. To be eligible to borrow, a cooperative must limit its membership to growers of agricultural products, including timber. Three types of loans are made by the banks—short-term commodity loans, short- or medium-term operating capital loans, and long-term facility acquisition loans. The long-term loans must be secured and cannot exceed sixty percent of the appraised collateral.

Before 1959 the Banks for Cooperatives could make loans to only those cooperatives handling timber or timber products grown or manufactured by farmers as part of general farming operations. In that year the regulations were changed to include cooperatives handling wood or wood products produced by tree farmers. The number of timber cooperatives is few—at present only one is organized in the Fifth Farm Credit District. The increasing importance of timber in the southern economy, however, should result in more such cooperatives.

FEDERAL LAND BANK OF NEW ORLEANS

The Federal Land Bank of New Orleans extends forest credit through 19 associations in Alabama, 17 in Louisiana, and 21 in Mississippi. Each association has a resident manager and is chartered

to serve a specific territory—usually several counties or parishes. Loan applications *(4)* are made through the association responsible for the area in which the collateral is located.

Eligibility of applicants.—Individuals, farming or timber-growing corporations, and partnerships are all eligible for loans, provided they presently own and manage forest acreage or shortly expect to do so. Corporations that are primarily engaged in farming or timber growing have been fully eligible since January 1, 1956; before that they could obtain loans only by acting as a representative or fiduciary for an individual. At least 51 percent of the corporation's income must be derived from farming, including timber operations, and one or more individuals owning a substantial portion of the corporate stock must endorse the note.

All applicants must meet normal credit requirements for a sound bank loan, be financially solvent, and have substantial equity in the property offered as security. They should also have experience in managing forest land and the ability to protect the timber from hazards and operate it for optimum returns.

Loan size and security requirements.—Prior to January 1, 1960, the law limited loans to a maximum of $200,000. On that date the ceiling was changed to a flexible one based on the bank's capital structure. The maximum for a loan presently exceeds $2.5 million. The collateral acreage must be an economic unit and readily salable in normal times. Loans are made only on tracts with substantial amounts of merchantable timber or, in favorable situations, with excellent stands of nearly merchantable young timber. Prospective timber growth during the term of the loan must be sufficient to cover the indebtedness.

Tracts offered as collateral must be self-supporting. Enough income should be forthcoming to pay all operating costs, fixed charges, and loan installments. Evidence of management is important. A management plan, not necessarily written, is mandatory. It must provide for protecting the young timber and for sufficient sustained production to insure orderly loan retirement. The owner, however, is not required to make annual cuts if other income is available for payments and if the timber will not depreciate from postponed harvesting.

Loans are made only in areas where timber markets are well established and there is evidence that sustained timber production can be profitable.

Loan provisions and terms.—By law a first mortgage is required on any property offered as collateral. This provision does not necessarily preclude a junior lien at the time a loan is closed or subsequent

thereto. The basic loan cannot exceed 65 percent of the appraised normal agricultural value of the collateral, or a lesser proportion if that is recommended by the local association. The borrower is required to purchase the association's stock to the value of 5 percent of the total loan. This amount may be added to the note at his option. Thus the maximum total that may be borrowed is 68.4 percent of the property's appraised normal value.

The current interest rate is 5½ percent, the same as that on the bank's loans of other types. The rate varies with business conditions and has been as low as 4 percent. Under the Federal Farm Loan Act, 6 percent is the maximum.

Repayment plans can be adapted to cutting cycles and are generally arranged to meet the borrower's individual needs. Usually either the "even payment" or the "decreasing payment" amortization plan is followed, depending on the nature of the security. The former, with equal annual installments, has a slower rate of principal reduction. It is used with stable properties that are expected to maintain a sustained earning level over the period of the loan. The "decreasing payment" plan, with equal annual principal payments plus interest on the unpaid balance, reduces the principal much faster in the earlier years of the loan than does the "even payment" plan. It was designed for properties where earnings might not be sustained throughout the loan term. Amortized loans may run from 5 to 40 years.

On January 1, 1961, the Federal Land Banks were authorized to make loans on a nonamortized or partially amortized basis. Partially amortized notes may run from 5 to 40 years; in years when timber cutting is not desirable they obligate borrowers only for interest plus token principal payments. Nonamortized loans permit the principal payment to be made at the end of the loan term, which may be up to 10 years. They are designed for timber stands too light or too young for frequent cuts. Exact loan terms depend on the liquidation possibilities, value, and durability of the security.

Advance payments can be made at any time without penalty. They may be used to reduce the principal or may be allocated to a "future payment" fund. The bank pays the borrower interest on money in this fund at the same rate that it charges for his loan. The balance can be drawn upon at any time to meet a payment. Of those borrowing money on timber land, between 15 and 20 percent pay into the fund.

Fees and appraisal procedures.—The application fee for loans up to $1,000 is $10; for larger requests it is $15. An additional fee of 5 cents per acre (not to exceed $600) is levied on that portion of the timber land in excess of 300 acres.

Appraisal of forest land usually requires an inventory of merchantable timber by species, type, and diameter class. Information is also taken on the amount of young stock and its estimated annual growth. These data have a direct effect on tract valuation. If the stand is in naval stores production, number and size of trees with and without working faces, and stages of working are also recorded.

To determine a tract's loan value, the bank applies a schedule of "normal" stumpage prices to the cruise data. These prices represent estimates of long-term market levels. Additional factors considered in the appraisal include the risk of fire and other hazards, the way the stand has been operated, and the feasibility of sustained production. The soundness of the owner's cutting plan is also evaluated.

The bank has encountered no particular appraisal problems. The appraisers are woodsmen with local experience—often, but not necessarily, graduate foresters. They are given special training in the bank's woodland appraisal procedures. The appraisers offer no technical advice or assistance to landowners but merely evaluate the timber.

Supervision and cutting of timber.—The New Orleans bank requires annual inspections of all collateral timber properties. These are made by the Federal Land Bank Associations with the assistance of appraisers when needed.

Timber that the landowner wishes to cut under his management plan must first be released from mortgage. Most release applications are processed quickly; managers of the local associations are usually authorized to approve them when there have been no adverse changes in the property and the proposed cut does not exceed the accumulated annual growth. The kinds, sizes, and volume of timber to be harvested, and the tracts from which it will come, must be indicated. A payment proportionate to the "normal" value of the timber cut is ordinarily required on the principal of the loan. With the bank's prior approval, however, the borrower may use all or part of the proceeds for other purposes. The approval is contingent upon the loan being current and the residual security adequate to cover the unpaid balance.

FOREST CREDIT EXPERIENCE

Number of loans rapidly increasing.—On February 1, 1961, the New Orleans bank carried 285 active loans. From 1944 to 1954 lending experience was sparse; only 12 of the existing loans were let during that time. Between 1954 and 1961 the number of outstanding loans increased more than sevenfold (table 1).

Approximately 75 loans have been paid off since the program began. Except where otherwise specified, the discussion hereafter

will exclude these and refer only to the 285 active contracts. The substantial lending on properties with only minor amounts of woodland is not included in this analysis.

Loan refusals are few.—The New Orleans bank actively encourages timber loans. Rejections of applications for loans on woodlands have been fewer than for those on cultivated lands. Primary reasons for rejection have been owners' lack of equity, sustained earning capacity, practical operating procedures, or financial responsibility. No timber loan has ever been foreclosed.

Lending concentrated in pine areas.—About half the active loans are secured by tracts in Alabama, one-third in Mississippi, and the remainder in Louisiana. In Alabama and Mississippi loans are concentrated in the southern two-thirds of each state; in Louisiana they are centered in the northwest and in the Florida parishes of the upper southeast. These areas, which are mapped in figure 1, account for most of the Fifth District's pine production.

In a large part of northern Mississippi soil erosion is severe and woodlands are depleted. In northern Alabama a sizable portion of the timber land is hilly and in poor condition. In these sections collateral suitable for timber loans is scarce.

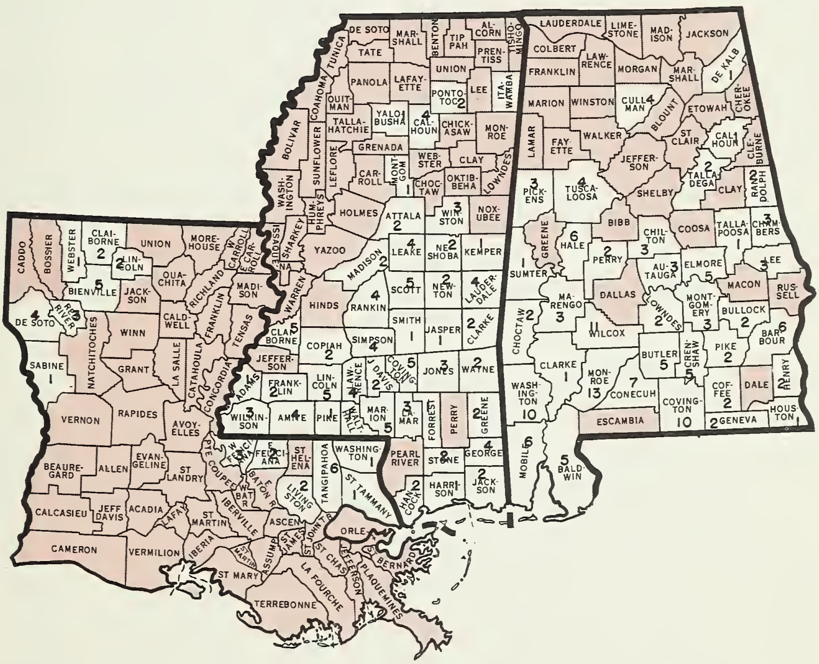

Figure 1.—*Number of current loans by county, Fifth Farm Credit District, February 1, 1961.*

The southern portion of Louisiana is largely cutover cypress land, and the central part contains a large acreage of national forest. No forest loans have been let in the Mississippi Delta, where hardwood land or valuable crop acreage predominates. Nevertheless, recent progress in management of southern hardwoods and development of markets, especially for hardwood pulpwood, suggests that Delta landowners are becoming increasingly eligible for forest credit.

Loan sizes rising, tract acreages decreasing.—The size of loans is increasing much faster than the number (table 1). Though the number of outstanding loans rose more than sevenfold between June 1954 and February 1961, the total amount increased by twenty times—from about $400,000 to $8 million. By June 1956 the amount of the average loan had nearly doubled and by February 1961 it had nearly tripled. At that time the smallest and largest loans were for $600 and $200,000 respectively.

Table 1.—*Number, face value, and forest-acreage collateral of active loans in the New Orleans district on selected dates*

Date	Loans outstanding	Total amount of loans	Average per loan	Forest acreage collateral	
				Total	Average
	Number	*Dollars*	*Dollars*	*Acres*	*Acres*
June 1954	38	403,230	10,611	49,619	1,306
June 1955	69	923,726	13,387	75,996	1,101
June 1956	107	2,087,936	19,513	113,033	1,056
February 1961	285	8,002,144	28,078	259,906	912

Most loans are for the maximum allowable percentage of normal tract value (table 2). Landowners in Louisiana borrow to the maximum more often than those in Alabama or Mississippi. Only 14 percent of the active loans in February 1961 were for less than 50 percent of appraised collateral value.

Table 2.—*Percent of appraised tract value loaned in current notes, February 1961*

Percent of normal tract value	Alabama		Mississippi		Louisiana		District	
	Loans	Proportion of total	Loans	Proportion of total	Loans	Proportion of total	Loans	Proportion of total
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*
0- 9	0	...	1	0.9	0	...	1	0.3
10-19	0	...	1	.9	0	...	1	.3
20-29	4	2.8	5	4.7	0	...	9	3.2
30-39	5	3.5	3	2.8	1	3.0	9	3.2
40-49	11	7.6	9	8.3	0	...	20	7.0
50-59	21	14.6	20	18.5	2	6.1	43	15.1
60-65	103	71.5	69	63.9	30	90.9	202	70.9

Between June 1954 and February 1961 the average acreage of collateral timber tracts decreased almost one-third (table 1). The average woodland securing a loan was 912 acres in 1961 and 1,306 acres in 1954. In 1961 the largest forested property was 14,888 acres.

It thus appears that an increasing proportion of lending is being done on properties with a greater volume of timber per acre. Newer loans probably constitute a larger percentage of property value than did those of previous years. Higher property appraisals in recent years are also a factor in contributing to increased amounts loaned per acre.

Most tracts only partly forested.—Only about 16 percent of the active loans in February 1961 were on tracts entirely stocked with timber. Six out of ten, however, were on acreage more than 70 percent forested. A few were on lands that were less than one-third forested, but on which the timbered acres had a value much greater than the open.

Loan size and acreage vary by State and property type.—In number, Alabama loans comprise little more than half of those made in the district, but their face value is nearly two-thirds of the total. The average loan in Alabama is $36,241, more than double that in Mississippi and 20 percent larger than in Louisiana (table 3).

Table 3.—*Number, face value, and forest-acreage collateral of active loans, February 1961*

State	Loans	Total value	Average value	Total collateral	Average collateral
	Number	*Dollars*	*Dollars*	*Acres*	*Acres*
Alabama	144	5,218,666	36,241	180,724	1,255
Mississippi	108	1,770,903	16,397	61,992	574
Louisiana	33	1,012,575	30,684	17,190	521

In Alabama and Louisiana, loans on properties that are completely forested average 60 percent or more than those on partly forested lands (table 4). The average acreage of completely forested

Table 4.—*Loan values by tract type, February 1961*

State	Tracts entirely forested			Tracts partly forested		
	Aggregate face value	Proportion of total	Average face value	Aggregate face value	Proportion of total	Average face value
	Dollars	*Percent*	*Dollars*	*Dollars*	*Percent*	*Dollars*
Alabama	970,383	18.6	53,910	4,248,283	81.4	33,717
Mississippi	241,990	13.7	14,235	1,528,913	86.3	16,801
Louisiana	437,275	43.2	43,728	575,300	56.8	25,013
District	1,649,648	20.6	36,659	6,352,496	79.4	26,469

collateral tracts in these States is also much larger than that of partly forested tracts (table 5). In Mississippi the opposite is true.

Table 5.—*Forest acreage collateral by tract type, February 1961*

State	Tracts entirely forested			Tracts partly forested		
	Aggregate size	Proportion of total	Average size	Aggregate size	Proportion of total	Average size
	Acres	*Percent*	*Acres*	*Acres*	*Percent*	*Acres*
Alabama	29,969	16.6	1,665	150,755	83.4	1,196
Mississippi	8,461	13.6	498	53,531	86.4	588
Louisiana	7,100	41.3	710	10,090	58.7	439
District	45,530	17.5	1,012	214,376	82.5	893

The forest acreage securing the average Alabama loan is more than twice that in Louisiana and Mississippi. The amount borrowed per acre in Louisiana, however, is about twice that in the other two States. The main reason for the difference is that most Louisiana loans have been made in recent years, when property appraisals have been high.

Land values vary widely.—The "normal" values per acre of collateral properties differ throughout the district (table 6). About 82 percent of the tracts are appraised at less than $60 per acre and 41 percent at less than $30. Only 4 percent—all recent collateral—are valued at $90 or more. The highest and lowest appraisals are $175 and $5.88 per acre, the latter being for one of the first timber loans made by the bank.

Fifteen percent of Louisiana tracts are appraised at 90 or more dollars per acre as compared with about six percent in Mississippi

Table 6.—*Number of loans by appraised value of forest acreage held in collateral, February 1961*

Value per acre (dollars)	Alabama		Mississippi		Louisiana		District	
	Loans	Proportion of total	Loans [1]	Proportion of total	Loans	Proportion of total	Loans	Proportion of total
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*
0- 9.99	7	4.8	2	1.9	0	...	9	3.2
10-19.99	28	19.4	20	18.9	3	9.1	51	18.0
20-29.99	33	22.9	18	17.0	5	15.1	56	19.8
30-39.99	26	18.1	16	15.1	10	30.3	52	18.4
40-49.99	21	14.6	16	15.1	4	12.1	41	14.5
50-59.99	10	6.9	9	8.5	2	6.1	21	7.4
60-69.99	6	4.2	10	9.4	3	9.1	19	6.7
70-79.99	5	3.5	6	5.7	0	...	11	3.9
80-89.99	6	4.2	3	2.8	1	3.0	10	3.5
90-99.99	1	.7	0	...	1	3.0	2	.7
100-124.99	1	.7	2	1.9	2	6.1	5	1.8
125+	0	...	4	3.7	2	6.1	6	2.1

[1] Data unavailable for 2 loans.

and one percent in Alabama. The average woodland in Louisiana is valued at about $60 per acre, that in Alabama at $36, and that in Mississippi at $33. The low values reflect a preponderance of old appraisals as well as the inclusion of many acres of low-grade timber.

In Alabama, large tracts tend to be worth more per acre than small, because they are generally better managed and stocked. The difference is not apparent in Louisiana and Mississippi. Entirely stocked collateral acreage in the district is valued much higher than that which is partly forested.

Loan terms differ.—Two-thirds of the presently outstanding loans in the district are for 20 years (table 7); 14 percent are for less time and 20 percent for more. In Louisiana, 88 percent of the notes are for 20 years. Two loans in the district have been let for the minimum time of 5 years and two for the maximum of 40.

Table 7.—*Number of loans by length of term, February 1961*

Term (years)	Alabama		Mississippi		Louisiana		District	
	Loans	Proportion of total	Loans	Proportion of total	Loans	Proportion of total	Loans	Proportion of total
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*
5	1	0.7	1	0.9	0	...	2	0.7
10	4	2.8	12	11.2	0	...	16	5.6
11	1	.7	0	...	0	...	1	.4
13	1	.7	0	...	0	...	1	.4
14	0	...	1	.9	0	...	1	.4
15	8	5.6	6	5.6	0	...	14	4.9
16	0	...	1	.9	0	...	1	.4
17	1	.7	1	.9	0	...	2	.7
20	94	65.2	65	60.2	29	87.8	188	65.8
21	2	1.4	2	1.9	0	...	4	1.4
25	9	6.2	9	8.3	0	...	18	6.3
26	1	.7	0	...	0	...	1	.4
30	17	11.8	5	4.6	2	6.1	24	8.4
35	3	2.1	5	4.6	2	6.1	10	3.5
40	2	1.4	0	...	0	...	2	.7

Many of the loans for less than 20 years are associated with tracts that are smaller than average and of low value per acre. These notes are essentially for small amounts.

"Decreasing payment" plan predominates.—More than half of the current loans in Alabama and Mississippi are being liquidated under the "decreasing payment" plan (table 8), i. e., by annual payment of a fixed portion of the principal plus interest on the unpaid balance. In Louisiana, though, nearly two-thirds of the notes are written under the "even payment" plan whereby the total payment of principal and interest is the same at each installment date. Two loans in Alabama have an amortization plan that provides for interest payments annually and principal payments every five years.

Table 8.—*Number of loans by repayment plan, February 1961*

State	Even payment		Decreasing payment		Partial amortization		Unknown	
	Loans	Proportion of total	Loans	Proportion of total	Loans	Proportion of total	Loans	Proportion of total
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*
Alabama	49	34.0	79	54.9	2	1.4	14	9.7
Mississippi	31	28.7	64	59.3	0	...	13	12.0
Louisiana	21	63.6	9	27.3	0	...	3	9.1
District	101	35.4	152	53.3	2	.7	30	10.6

Refinanced loans are few.—Twelve percent of current loans in the district are refinanced notes. All such loans except one are in Alabama or Mississippi and all but one are on partly forested tracts. It would thus appear that completely stocked collateral properties are somewhat more stable income producers. In the bank's experience, owners of such tracts usually have more adequate sources of additional income and thus do not usually need additional capital as often as owners of partially forested tracts.

Loan purposes are varied and many.—The most prevalent reason for borrowing is to consolidate debts. Nearly one-third of all loans, liquidated plus current, have been for that purpose (table 9). Sixteen percent of the borrowers have used the proceeds entirely for forestry purposes. Of these, the majority purchased more timber land. The remainder utilized the money for general forestry operations on their properties.

Of the 23 percent of borrowers with multiple objectives, nearly half channeled some money into forestry. Another important reason for borrowing has been to remodel, buy, or construct buildings. Of the 28 loans for this purpose, two were used to build sawmills and one a planing mill, all in Louisiana.

Some interstate differences are important. Nearly 26 percent of the loans in Louisiana have been used entirely for forestry, as compared to 16 percent in the district as a whole. Fifty percent more loans in Louisiana have been used to buy timber land than in each of the other two States. In Alabama 8 percent of those who borrowed used the money for farm improvement and operation. In Mississippi and in Louisiana 2 percent of the notes were for this purpose. Loans are used for single purposes more often in Louisiana than in Alabama and Mississippi.

Most of the loans whose proceeds were used for forestry purposes have been let in recent years. In Alabama the earliest such loan was in 1949; in Louisiana, 1953; and in Mississippi, 1954. The percentages of such loans made during the past five years are 94 in Louisiana, 75 in Mississippi, and 58 in Alabama.

Table 9.—*Number of loans by use, current and liquidated, February 1961*

Use	Alabama		Mississippi		Louisiana		District	
	Loans	Proportion of total	Loans	Proportion of total	Loans	Proportion of total	Loans	Proportion of total
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*
Consolidate debts	67	34.9	27	22.1	15	34.9	109	30.5
Buy timber land	22	11.5	11	9.0	8	18.6	41	11.5
Buy, remodel, or construct buildings	13	6.8	10	8.2	5	11.6	28	7.8
Pay general forestry operating expenses	6	3.1	7	5.8	5	7.0	16	4.5
Pay general farm operating expenses	9	4.7	2	1.6	0	...	11	3.1
Buy farm land	9	4.7	0	...	0	...	9	2.5
Pay farm improvement expenses	6	3.1	1	.8	1	2.3	8	2.2
Finance small business	3	1.6	1	.8	[1] 4	9.3	8	2.2
Pay inheritance taxes and settle estate	5	2.6	0	...	1	2.3	6	1.7
Buy cattle	1	.5	1	.8	0	...	2	.6
Pay property and income taxes	1	.5	0	...	0	...	1	.3
Send children to college	1	.5	0	...	0	...	1	.3
Mixture	42	21.9	33	27.1	6	14.0	[2] 81	22.7
Unknown	7	3.6	29	23.8	0	...	36	10.1

[1] Includes two sawmills and one planing mill.
[2] Includes 37 used partially for forestry purposes.

Bank has active public relations program.—The timber loan operation of the New Orleans bank has been a successful business venture from the start. Recognizing this fact, the bank has recently increased its publicity efforts, and with evident results. In the year beginning February 1961, 64 new timber loans were made for an average of $36,000 apiece and a loan for $631,500 was under consideration.

A special circular, "Federal Land Bank Loans on Forest Farms," is widely distributed. Members of the forestry associations of the three States are kept advised of changes in terms, interest rates, and maximum amounts loanable. Publicity in timber and farm journals is sought and letters of solicitation are sent to timber owners.

The experience of the New Orleans bank furnished guidance for the inauguration of the timber loan program of the bank at Houston, Texas, and is currently being studied by the bank of St. Louis, Missouri.

IMPLICATIONS FOR FORESTERS

The growth of forest credit in the Midsouth is making it possible for landowners, large and small, to practice more intensive forestry than ever before. On many holdings, there is considerable need for cash outlays to restore deteriorated stands. Liquidating immature but merchantable timber to raise funds for these purposes is usually far less profitable than using such timber as collateral for loans,

because young timber ordinarily earns at rates far in excess of what credit costs. In this and other ways, the knowledge that timber can be used as collateral makes forest investments more attractive than previously. Its low rates and provisions for adjusting terms to individual requirements make the New Orleans Federal Land Bank especially useful to owners of small tracts.

The extent to which credit is used for forestry purposes depends largely on the initiative of foresters. The bank's primary interest is to insure that the timber collateral is managed in a manner sufficient to protect bank funds. Beyond this minimum, the bank is in no position for actively promoting forestry.

Their frequent contacts with woodland owners put foresters in an ideal position to act as intermediaries between suppliers and users of credit. As an initial step, they can be instrumental in helping landowners qualify their tracts as collateral. In so doing, they will be able to show many landowners that the rate of return from holding timber can exceed loan costs. Thus the availability of credit can prevent the cutting of much immature timber.

Further, foresters can diagnose stand conditions, prescribe treatments, and evaluate possible earnings from various forest management alternatives. Such analyses can provide the basis for indicating the ways in which the landowner can most advantageously use land bank loan funds.

Foresters' ability to predict the development of managed stands also enables them to schedule loan payments to coincide with periodic timber harvests.

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